A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Thursday, February 9, 2006, at 9:00 a.m. in room 427A Waterman Building.

MEMBERS PRESENT: Chair Mark Young, Vice Chair John Snow, Edwin Amidon, Bill Botzow, Deborah McAneny (by phone), Frank Cioffi, and Kami Patrizio

MEMBERS ABSENT: None

REPRESENTATIVES PRESENT: Faculty Representative Chris Miller, Staff Representative Amy St. Louis and Student Representative Jessica Banks

REPRESENTATIVES ABSENT: Alumni Representative Larry Williams

ALSO PARTICIPATING: Carl Lisman, Board of Trustees, Chair, J. Michael Gower, Vice President for Finance and Administration and University Treasurer, Charles Jefferis, Associate Vice President for Institutional Risk Assessment and Audit, Bonnie Cauthon, Associate Vice President for University Financial Services, Ted Winfield, Associate Vice President for Budget and Resource Management, Mary Dewey, Director Risk Management, Renee Bourget-Place, KPMG representative, John Moriarty, KPMG Partner and Tom Gorman, Deputy State Auditor

Chair Mark Young called the meeting to order at 9:00 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the November 17, 2005 meeting.

OMB Circular A-133 and NCAA Financial Statement Audits

Ms. Bourget-Place reviewed the NCAA Agreed upon Procedures review. Trustee Amidon asked if there was an opinion or a management letter. Ms. Bourget-Place responded that there was no formal management letter. In-lieu of the management letter the auditor’s observations and management’s action plan response is included in the Auditor’s Report to the Committee. Chair Young asked if Athletic financial transactions are also reviewed in the year end financial statement audit. Ms. Bourget-Place responded that these were focused on for the NCAA audit. Chair Young asked if the committee was getting less of a financial statement than in the past. Ms. Bourget-Place said that they had not made a comparison of the statements since the report changed in 2004 and it would not be an accurate comparison. Chair Young requested that the comparison be done from now on. Ms. Bourget-Place said that they would do that. KPMG had three process observations from the NCAA review; 1) Reconciliation of ticket sales has not been maintained; 2) The supporting documentation on non-cash gifts is not adequate to support the valuation and 3) Preparation of the statement is a manual and labor intensive process. All of these have been or
will be addressed by management. Chair Young noted that some of these are repeat observations from prior year audits. Vice President Michael Gower commented that he too noted the recurring observations and would be discussing that fact with the appropriate University department(s). Charles Jeffersis, Assoc. Vice President for Compliance, Risk and Audit, noted that additionally the Audit Services Office conducts a recurring compliance audit of all NCAA regulations. Mr. Jeffersis updated the Committee that the central database of all audit findings will be ready by the May Board meeting.

John Moriarty, KPMG Partner, reviewed the OMB Circular A-133 audit. He noted that; 1) an unqualified financial statement opinion; 2) an unqualified opinion on compliance and internal control over financial reporting; and 3) a qualified opinion on compliance and internal control over compliance at the major program level. The qualified opinion was based on two audit findings: (1) procurement, suspension and debarment language that needs to be included in the University’s contract for goods or services, and (2) late reporting of grant Financial Status Reports; none involved questioned costs.

First, Mr. Moriarty reported that KPMG reviewed twelve contracts. Eight out of the twelve did not contain a suspension / debarment clause. Additionally, two contracts could not be found. Mr. Gower responded that the contracts now include a clause regarding suspension or debarment. Trustee Amidon voiced a concern that two contracts could not be located. He asked if this was a deterioration in process control and if this has been examined in the past. Mr. Moriarty responded that, in the past, sub recipient contracts were examined (which are in compliance). This year, they also audited contracts for goods and services, which were out of the usual scope. Chair Young requested the details of the missing contracts at the next Board meeting. Mr. Gower noted that the University is now electronically scanning the contracts which will reduce the clerical risk of missing documentation.

Second, sixteen out of twenty-five Financial Status reports (SF 269) or PHS 416-7 Close Out Reports sampled were not filed within the 90 day deadline. Two out of the twenty-five had not been submitted as of the end of the KPMG fieldwork. Mr. Botzow questioned whether this was a process or a people problem. Bonnie Cauthon, Associate Vice President for University Financial Services, responded that this was a process problem. As the University has grown, they have tried to keep up with the requirements in a very technical area. There has been some staff turnover and the training for this area has a longer learning curve. Peoplesoft will help. Mr. Gower added that they are also doing some process reengineering. Trustee Botzow asked if the problem is lack of access to the data or do we have the data and lack the time to properly report it. Trustee Botzow questioned whether federal funding could be withheld as a result of the late filings. Trustee McAneny also questioned if this has been audited before now and, if so, is this a new problem. Mr. Moriarty responded that this has been a finding before but not to this degree. Mr. Gower stated that this is a process problem that needs to be fixed. Trustee Snow stated that if, in every quarter, we know what was missed the committee should review that performance on a quarterly basis. Chair Young concurred stating that this affects a huge portion of the strategic plan and this problem could put this in jeopardy.

Mr. Moriarty noted additional internal control observations (i.e., not reportable non-compliance findings).
First, the University does not have a policy documenting its approach to sub-recipient monitoring. Trustee Snow asked if there is sub-recipient monitoring standard documentation. Mr. Gower responded that the Principal Investigator is ultimately responsible and has to certify that progress has been made. Trustee Snow asked for some form of documentation that would require the PI to document what they have done. Mr. Gower responded that there is no formula or checklist at this time. Trustee Botzow asked to have a timeline or expectation as to when this would be accomplished in the management response to these issues. Mr. Jefferis responded that the OMB A133 audit report will indicate the action plan, the person responsible for implementation and the timetable. Committee members will receive a copy of the report when it is completed.

Second, the University should increase its employee compliance training efforts. Mr. Jefferis responded that establishing an institution compliance training program is a high priority of the Institution Compliance Program.

Third, the University should reconsider its current practice of allowing department chair to certify a graduate research assistant’s effort distribution. Mr. Gower responded that they would like to get the paperwork as close to the individual as possible and that Peoplesoft should help but, in some cases, the chair should be responsible for signing off. He believes that the process can be improved but not necessarily in the sited instances.

Review of KPMG FY2005 Audit Plan

John Moriarty, KPMG partner, reviewed the 2006 Comprehensive Engagement Plan. Mr. Moriarty described KPMG’s responsibilities their audit approach and the audit timeline. He also identified an industry issue, the valuation of non-marketable investments, which will affect Higher Education in the coming year. This issue has been discussed throughout the industry about the practicality of being able to comply with the requirements of this interpretation. The AICPA has created a task force to address the issues surrounding this issue. Trustee Snow asked that the papers from the task force be forwarded. Mr. Moriarty said that they would do that.

Student Debt Process

At the request of the committee, Mr. Gower presented a report on student loan debt level. Trustee Snow asked with the change in the level of federal funding what impact will this have on the University. Mr. Gower responded that there are three levels of change. (1) Properties Loan Program (2) University Budget Aspect and (3) Green Mountain Loan Program. Trustee Snow asked if we have some reserving or recognition of loans defaulting for which we are the guarantor. Mr. Gower said yes but not for the Green Mountain Loan Program. Ted Winfield, Associate Vice President for Budget and Resource Management, informed the committee that the class that just graduated is the first class that has the Green Mountain Loan. Chair Young asked if we have an agreement with VSAC about when we are told that we are in default. Mr. Winfield said that we do have that agreement. Trustee Snow stated that somewhere in the advising effort should be a statement on how to handle student debt. Kit Ardell, Administrative Services Manager for Loan Receivables, told the committee that they do work on creating a rapport with the students during the first year. Chair Young asked if the first twelve months was indicative of how the student will pay back loan. Ms. Ardell stated that the first twelve months is a very good indicator; that if they
start to pay it back in the first twelve months and build a relationship with the student, the student will be more likely to pay the loan back in full.

**Review of the University’s Insurance Plan and Coverage**

At the request of the committee, Mary Dewey, Director Risk Management Department, gave a presentation on the University’s financial risk program through the use of captive insurance companies (including UVM’s insurance risk coverage; loss history; cost of risk; and UVM’s performance). Trustee Amidon asked why the current structure was necessary. Why couldn’t the University use Pinnacle instead of Pinnacle and Genesis. Ms. Dewey explained that if the structure was changed twenty-five years of claims would have to be moved not just the current year.

**Review of Workplan**

Chair Young reviewed the Audit Committee workplan for the coming year. He noted that he felt that the Audit committee did need to meet at the regularly scheduled time in May. He also noted that he may call the committee together before that.

**Adjournment**

There being no further business, the meeting was adjourned at 12:17 p.m.

Respectfully submitted,

Mark Young, Chair